

**Group Insurance Board
State of Wisconsin
Department of Employee Trust Funds
Madison, Wisconsin**

Independent Accountants' Report on Applying
Agreed-Upon Procedures for Third-Party
Administration of Group Life Insurance Program
For the Period January 1, 2000 through December 31, 2002
May 1, 2003

State of Wisconsin
Department of Employee Trust Funds
Madison, Wisconsin

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State of Wisconsin
Department of Employee Trust Funds
Madison, Wisconsin

E X E C U T I V E S U M M A R Y
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Williams Young, LLC performed agreed-upon procedures in relation to third-party administration of the Group Life Insurance Program (GLIP) for the years 2000, 2001, and 2002. Minnesota Life Insurance Company performs the administration of the GLIP pursuant to an administrative agreement with the Department of Employee Trust Funds Group Insurance Board. Our procedures were designed to test for specific elements of compliance with the administrative agreement as specified in the Request for Proposal and through discussions with Department of Employee Trust Funds (DETF) personnel. The results of our procedures are summarized below and discussed in greater detail later in this report.

- We noted Minnesota Life to be in compliance with all significant elements of the administrative agreement tested, including:
 - Maintenance of affirmative action, privacy, and business continuation policies
 - Administrative performance standards
 - Policy year reporting
- Our examination of selected transactions revealed no exceptions or errors, including the following:
 - Declinations of coverage under evidence of insurability provisions
 - Payment of death benefit claims
 - Participant eligibility determination
 - Premium invoicing and collection
 - Retirement processing
 - Disability premium waiver
- Overall, we found the records maintained at Minnesota Life to be complete and orderly. We found procedures to be well documented and monitored.

**INDEPENDENT ACCOUNTANTS' REPORT ON APPLYING
AGREED-UPON PROCEDURES FOR THIRD-PARTY
ADMINISTRATION OF GROUP LIFE INSURANCE PROGRAM**

Group Insurance Board
Department of Employee Trust Funds
State of Wisconsin
Madison, Wisconsin

We have performed the procedures presented in the following report, which were agreed to by the State of Wisconsin Department of Employee Trust Funds (the specified user), to assist the Department in satisfying its requirements under the Statutes. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of the party specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures described in the attached supplement either for the purpose for which this report has been requested or for any other purpose.

We were not engaged to, and did not, perform an audit on Minnesota Life Insurance Company's financial statements or any elements, accounts, or items thereof, the objective of which would be the expression of an opinion on the specified elements, accounts, or items thereof. Accordingly, we do not express such an opinion. Also, we express no opinion over financial reporting or any part thereof. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the user specified above, and is not intended to be and should not be used by anyone other than that specified user.

Williams Young, LLC

Williams Young, LLC

Madison, Wisconsin
May 1, 2003

State of Wisconsin
Department of Employee Trust Funds
Madison, Wisconsin

SECTION I -
OBJECTIVES AND
SCOPE

State of Wisconsin
Department of Employee Trust Funds
Madison, Wisconsin

SECTION I - OBJECTIVES AND SCOPE

This section of our report is based on the agreed-upon procedures as set forth in the Request for Proposal dated June 12, 2002 and Technical Proposal dated July 12, 2002 for Compliance Audits of Administration of Employee Benefit Programs by Third-Party Administrators. Certain other specific procedures were discussed with Department personnel in advance of performance.

A. BACKGROUND

The Group Life Insurance Program (GLIP) is authorized by Wisconsin Statutes. The Program is available to state employees with at least six months participation under the Wisconsin Retirement System (WRS). The Program is funded by employer and employee premium payments as well as investment income. Benefits provided under the Program consist of death benefits, dismemberment benefits, and other health conversion features.

The Program is administered by Minnesota Life Insurance Company (MLIC), who also acts as insurer. Under the administrative agreement between the Group Insurance Board (GIB) and MLIC, MLIC is responsible for the provision of technical assistance, enrollment, premium reporting and billing, claims administration, provision of marketing and promotional materials, and certain periodic reporting. The GIB is responsible for communication of program provisions to employees, including the printing and distribution of manuals and forms and counseling employers and participating employer groups, maintenance of employee and employer records, and administration of the appeals process.

B. PREVIOUS EXAMINATIONS

The GLIP was last tested for compliance for the period January 1, 1997 through December 31, 1999.

C. OBJECTIVES

Our engagement was designed to assist the Department of Employee Trust Funds (DETF) in determining whether MLIC is complying with terms of the administrative agreement, conducting enrollments in accordance with policy and requirements, and processing premiums and claims timely and accurately.

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D. SCOPE

Our engagement extends to the application of the certain procedures enumerated in Section II of this report. We applied these procedures to the records and systems maintained by MLIC and DETF. Our procedures were applied to the 2000, 2001, and 2002 plan years.

State of Wisconsin
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SECTION II -
PROCEDURES AND
RESULTS

State of Wisconsin
Department of Employee Trust Funds
Madison, Wisconsin

R E V I E W O F I N T E R N A L C O N T R O L S
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OBJECTIVES

1. Obtain an understanding of the procedures and controls surrounding the program's processes in the following specific areas:
 - Enrollment and eligibility
 - Premium billing and collection
 - Retirement
 - Claims
2. Obtain an understanding of the periodic reports produced by MLIC and determine how they are utilized as part of the monitoring and reporting processes.

PROCEDURES

1. Discuss with appropriate personnel the flow of information within the DETF, between the DETF and MLIC, and within MLIC.
2. Obtain and examine related written policies and procedures.
3. Obtain and examine forms, documents, and transmittals used in the processes.
4. Obtain and examine SAS 70 report on internal controls and effectiveness for MLIC Group Insurance business unit and relevant audit results.

RESULTS

The appendices at Section IV summarize the process flow for each area of interest.

Based on our inquiry and analysis of these processes and our evaluation of the controls thereon, we obtained an understanding of these systems. Based on this understanding, we made an assessment of the potential for process failures and control risks. Our tests of the enrollment, retirement, premium collection, and claims processes were designed accordingly.

The SAS 70 Report for the MLIC Group Insurance Business Unit contained no relevant testing exceptions or control weaknesses.

It was noted that part of the Department processing was performed by MLIC staff embedded in the Department's operations. The individual performs functions previously performed by Department personnel. The individual functions as de facto Department personnel.

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R E V I E W O F S P E C I F I E D MLIC P O L I C I E S

OBJECTIVES

Obtain an understanding of the policies in place at MLIC in the following specific areas:

- Affirmative action
- Privacy
- Disaster recovery and business continuation

PROCEDURES

1. Discuss the policies with appropriate personnel.
2. Compare policies in place with requirements of State contract.

RESULTS

We discussed MLIC's affirmative action policies with Jim Fenton, Senior Employee Relations Specialist. MLIC maintains an affirmative action policy which is updated annually. The policy stresses accountability at all levels of the company and includes internal quarterly, semiannual, and annual reporting at various levels of management. The policy is regularly reviewed by the State of Minnesota Human Rights Department (HRD). We observed the HRD certification effective for the two years beginning August 17, 2001.

We discussed MLIC's privacy policies with Alfrieda Baldwin, Senior Council. Management believes the company's privacy policy is compliant with the federal Gramm-Leach-Bliley Act. As such, MLIC has furnished proper notification of the privacy policy to the State of Wisconsin. MLIC discloses information regarding customers only when a business need exists, subject to applicable oversight and conditions. The company further safeguards information through building security measures, computer access passwords, employee training, and background checks. The company does not consider itself to be classified as a covered entity as defined by HIPAA.

We discussed MLIC's business continuation planning with Linda Goeppinger, Business Continuation Planning Coordinator. Prior to May 2000, the company's disaster recovery plans were drawn up individually by the IT (Data Center and Network) and Corporate divisions. In May 2000, this responsibility was reorganized under the Risk Management

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RESULTS (continued)

Department of the Financial Management Division. Consolidating this function under a single division has allowed for the development of standardized recovery plans which are able to be rolled out to divisions company-wide. We examined MLIC's Business Continuation Plan (BCP) program summary. It identifies internal teams and contacts and extends to the company's business partners and the BCP's of service providers. The plan contains a framework for interim and recovery contingencies. Each business unit's plan is reviewed and exercised at least once per year. Our examination of the SAS 70 report revealed that controls relevant to data access, back-up, recovery, and protection of physical assets were tested and revealed no weaknesses.

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EVIDENCE OF INSURABILITY COVERAGE DECLINATIONS

OBJECTIVES

Employees who do not enroll during the open enrollment period, or who wish to increase their spouse and dependent coverage, may obtain coverage by providing the insurer satisfactory evidence of insurability. As the insurer, MLIC has the discretion to extend or decline coverage. Objectives included:

1. Documentation of the enrollment process under the evidence of insurability provisions.
2. Detail inspection, on a sample basis, of declined enrollments under the evidence of insurability provisions.

PROCEDURES

1. Discuss the policies with appropriate personnel.
2. Obtain a data file containing of coverage declinations from MLIC.
3. Select a sample of declinations and inspect documentation and basis for coverage decision.
4. Compare policies and results of examined transactions with requirements of the state contract.

RESULTS

We documented the process for enrollments under the evidence of insurability provisions of the plan. We obtained a data file containing all persons declined coverage under evidence of insurability and randomly selected 15 of the 526 declined during the 2000-2002 period. (The sample size provides 95% confidence that the deviation rate is less than 18% on the population size.) We inspected the files, recalculated the underwriting build rating, examined the medical questionnaire (as applicable), examined the physician's statement (as applicable), and recalculated days to process. The files for all items selected contained appropriate documentation. Denial status appeared adequately substantiated based on the documentation obtained and appeared consistent with underwriting policies developed by MLIC. See Comment 1 in Section III. There were no exceptions noted with regard to noncompliance with processing timeframes specified in the Administrative Agreement.

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C L A I M T E S T I N G

OBJECTIVES

Generally, DETF is contacted at the time of an insured member's death. DETF notifies MLIC and the appropriate forms are forwarded to the beneficiaries. Upon submission of the claim request form and supporting documentation, MLIC pays the claim according to the plan and the beneficiaries' requests. Objectives included:

1. Document procedures for processing death and other claims.
2. Detail examination, on a sample basis, of claims paid.

PROCEDURES

1. Discuss the policies with appropriate personnel.
2. Obtain a data file containing claims paid from MLIC.
3. Select a sample of claims paid and inspect documentation and payment details.
4. Compare policies and results of examined transactions with requirements of the state contract.

RESULTS

We documented the process for claims payment under the plan at Appendix 1 in Section IV. We obtained a data file containing all claims paid and randomly selected 60 of the 5,883 claims paid during the 2000-2002 period. (The statistical sample size provides 95% confidence that the error rate is 5% or less.) The claims paid data file was compared to the amount reported on the Policy Year Reports (see POLICY YEAR REPORT testing on page 14). The files of all items selected contained appropriate documentation including initial application, distribution request, and certificate of death, as applicable. The amount of each claim payment was recomputed based on coverage elected and earnings base. Where possible, the participant was also compared to the active Wisconsin Retirement System database to ensure eligibility was appropriately determined. All payment amounts selected were properly calculated as was interest paid. For certain claims, the payment was traced to a copy of the check issued. For these claims, there were no exceptions either in amount or payee. There were no exceptions noted with regard to noncompliance with processing timeframes specified in the Administrative Agreement.

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E L I G I B I L I T Y A N D P R E M I U M T E S T I N G
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OBJECTIVES

All employees of the State of Wisconsin and participating local governments with at least six months of participation in the WRS are eligible to participate in the plan. Certain legislative, judicial, and other employees are immediately eligible. Coverage and premiums are based on the previous year's annual earnings as reported to WRS, or expected current earnings in the year of hire. Participants may elect additional, supplemental, and spouse and dependent coverage subject to certain criteria. Premiums may be adjusted annually by DETF. Objectives included:

1. Document procedures for processing initial enrollments, determining premium amounts, and collecting premiums.
2. Detail examination, on a sample basis, of new enrollments.
3. Detail examination, on a sample basis, of actual receipt of individual premiums.
4. Trace premium amounts received to amounts reported in the policy year report.

PROCEDURES

1. Discuss the policies with appropriate personnel.
2. Obtain a data file containing new participants/enrollees during the 2000-2002 period.
3. Select a sample of participants and inspect eligibility documentation and premium determination.
4. Compare policies and results of examined transactions with requirements of the state contract.

RESULTS

We documented the process for eligibility and premium determination and remittance under the plan at Appendix 1 in Section IV. We observed that there were two separate processes in place for each of the following groups:

- State and State agency employees
- Local government unit employees

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RESULTS (continued)

We obtained a data file containing all new enrollments and randomly selected 60 of the 18,623 local and 12,475 state applicants enrolled during the 2000-2002 period. (The statistical sample size provides 95% confidence that the error rate is 5% or less.) For each participant, we examined the participant's application, noting approvals by the on-site payroll office, and recalculated the premium amount according to age and rates specified in the Administrative Agreement. We verified that the coverage effective date and premiums began in the same period.

For State and State Agency employees, we examined the cleared premiums report for pre-selected coverage months (June 2000, September 2001, and May 2002) and noted the proper premium for the individuals previously selected. We traced the total premium for that department to inclusion in the data file provided by the State of Wisconsin to MLIC which also was agreed to the wire transfer remittance advice.

For Local Government unit employees, we inspected the microfiche copy of the invoice MLIC prepared for each unit in our sample for pre-selected coverage months (June 2000, September 2001, and May 2002) and verified the accuracy of the premium for the participant selected. The total invoice amount for each unit selected was agreed to receipt documentation at the Madison office. The total daily receipts containing the participant selected were agreed to the appropriate bank statement.

In all cases, premium amounts were properly determined, billed, and collected. There were no exceptions noted with regard to noncompliance with processing timeframes specified in the Administrative Agreement.

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R E T I R E M E N T P R O C E S S I N G
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OBJECTIVES

Participants who retire prior to age 65 may continue their coverage by remitting premiums directly to MLIC or as a deduction from their retirement annuity. Participants who retire after age 65 may continue their basic life insurance at a reduced coverage level with no further premiums due. With regard to testing of retirement processing, objectives include:

1. Documentation of participant status change process and premium calculation.
2. Examining, on a sample basis, retirement processing.
3. Examining, on a sample basis, premium determination for retirees.

PROCEDURES

1. Discuss the policies with appropriate personnel.
2. Obtain a data file containing retirements processed during the 2000-2002 period.
3. Select a sample of newly retired participants and inspect retirement documentation and premium determination.
4. Compare policies and results of examined transactions with requirements of the state contract.

RESULTS

We documented the process for retirement processing under the plan at Appendix 1 in Section IV. We obtained a data file containing all new retirements and randomly selected 30 of the 6,254 newly retired during the 2000-2002 period. (The sample size provides 95% comfort that there are fewer than 10% error rate.) For each participant, we inspected the participant's application, noting approvals by the on-site payroll office, and recalculated post-retirement premiums. For all items selected, documentation and approvals were appropriate and the premium was calculated properly based on age consistent with the Administrative Agreement. There were no exceptions noted with regard to noncompliance with processing timeframes specified in the Administrative Agreement.

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D I S A B I L I T Y P R E M I U M W A I V E R S
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OBJECTIVES

Participants who are actively employed and become totally disabled may receive continued coverage that requires no premiums, subject to periodic documentation requirements. Objectives include:

1. Documentation of procedures for processing and approving disability premium waiver applications.
2. Examining, on a sample basis, participant requests for disability premium waivers and related documentation.

PROCEDURES

1. Discuss the policies with appropriate personnel.
2. Obtain a data file containing disability premium waivers granted during the 2000-2002 period.
3. Select a sample of participants and inspect documentation and premium waiver determination.
4. Compare policies and results of examined transactions with requirements of the state contract.

RESULTS

We documented the process for disability premium waiver approval under the plan at Appendix 2 in Section IV. We obtained a data file containing all new premium waivers approved and randomly selected 30 of the 989 waivers approved during the 2000-2002 period. (The sample size provides 95% comfort that there are fewer than 10% error rate.) For each participant, we examined the participant's application, noting approvals by the on-site payroll office, age, physician statements, and determination of disability under Statute 40.63 (where appropriate). For all items selected, documentation and approvals were appropriate and determination was consistent with policies developed by MLIC. See Comment 2 in Section III. There were no exceptions noted with regard to noncompliance with processing timeframes specified in the Administrative Agreement.

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A D M I N I S T R A T I V E P E R F O R M A N C E S T A N D A R D S
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OBJECTIVES

The Administrative Agreement between the DETF and MLIC requires MLIC to report quarterly on a variety of performance standards. The standards generally relate to timely processing of claims, applications, and underwriting determinations. Objectives include:

1. Documentation of MLIC's process for summarizing and reporting performance data.
2. Examine, on a sample basis, the underlying records that are used in producing the quarterly performance reporting.

PROCEDURES

1. Discuss the process with appropriate personnel.
2. Obtain detail supporting quarterly performance reporting furnished to the Department during 2000-2002.
3. Select a sample of reported data and trace to underlying detail.
4. Compare process, reports, and results of examined detail with requirements of the state contract.

RESULTS

For each year we selected one quarter (2nd Quarter 2000, 4th Quarter 2001, 3rd Quarter 2002) and traced the reported statistics to the underlying summary of data compiled by MLIC at the Madison office. Exceptions noted were of the magnitude 1-2 transactions, which correspond to a difference of .004%. The system of compiling and reporting performance statistics appears to function as designed and produces accurate results. See Comment 3 in Section III.

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P O L I C Y Y E A R R E P O R T

OBJECTIVES

The Administrative Agreement between the DETF and MLIC requires MLIC to report annually on program assets, liabilities, cash receipts, cash disbursements, and other data in a Policy Year Report, the format of which is prescribed by the agreement. Objectives include:

1. Determine MLIC's process for preparing the Policy Year Report is consistent with the Administrative Agreement.
2. Determine the Policy Year Report is supported by underlying records and documentation.

PROCEDURES

1. Discuss the process with appropriate personnel.
2. Obtain detail supporting the Policy Year Report for 2000 and 2001. (At the time of our fieldwork, MLIC had not yet completed the 2002 Policy Year Report.)
3. Select a sample of reported data and trace to underlying detail.
4. Compare policies and results of examined records with requirements of the state contract.

RESULTS

We documented the process for compiling the Policy Year Report. For each year, we selected the following data and traced to underlying documentation:

- Employee premium contributions
- State premium contributions
- Employee claims (pre- and post-retirement)
- MLIC expense charge
- State premium and federal income taxes
- Plan assets
- Interest on premium deposit fund
- Stabilization reserve changes

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RESULTS (continued)

Paid claims and premiums collected data was further validated by relating reported amounts to detail examinations conducted of these areas. Paid claims data provided agreed/reconciled to the value reported in the Policy Year Report. Premiums collected data was compared to the detail rollup performed on individual premium without exception. All other selected financial and actuarial documentation was compared to prior years and current year supporting detail for reasonableness without exception. The system of compiling and reporting performance statistics appears to function as designed and produces accurate results.

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**SECTION III -
COMMENTS AND
RECOMMENDATIONS**

State of Wisconsin
Department of Employee Trust Funds
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C O M M E N T 1

The contract between the State of Wisconsin and MLIC does not articulate the criteria under which eligibility is determined for evidence of insurability applicants. The applications are processed by MLIC under internally developed criteria that are consistent with all plans administered by MLIC.

C O M M E N T 2

The contract between the State of Wisconsin and MLIC does not articulate the criteria under which eligibility is determined for disability premium waiver applicants. The applications are processed by MLIC under internally developed criteria that are believed to meet the definition of disability as provided in Section 6 of the contract.

C O M M E N T 3

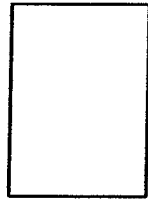
The contract between the State of Wisconsin and MLIC requires MLIC to process certain percentages of transactions within varying ranges of days. The process for compiling this data is quite manual, in many cases necessarily so due to the nature of the data being captured. Much of the performance data is driven by document received dates which is generated by ink date stamping of paper documents upon receipt in the mail. We are aware of no instances of altering of these stamped dates; however, audit procedures would be unable to detect such manipulation.

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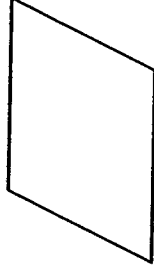
SECTION IV -
APPENDICES

Wisconsin Department of Employee Trust Funds Group Life Insurance Program Flow Chart Symbols

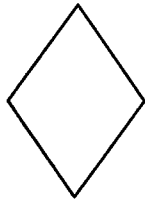
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Manual Process



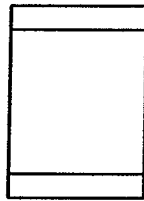
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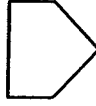
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On-page reference



Electronic Process



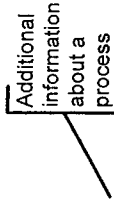
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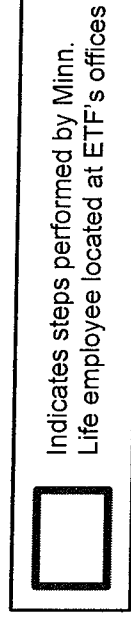
Paper Document



End of Process



Process Annotation



Cross reference to form
attached to flowcharts

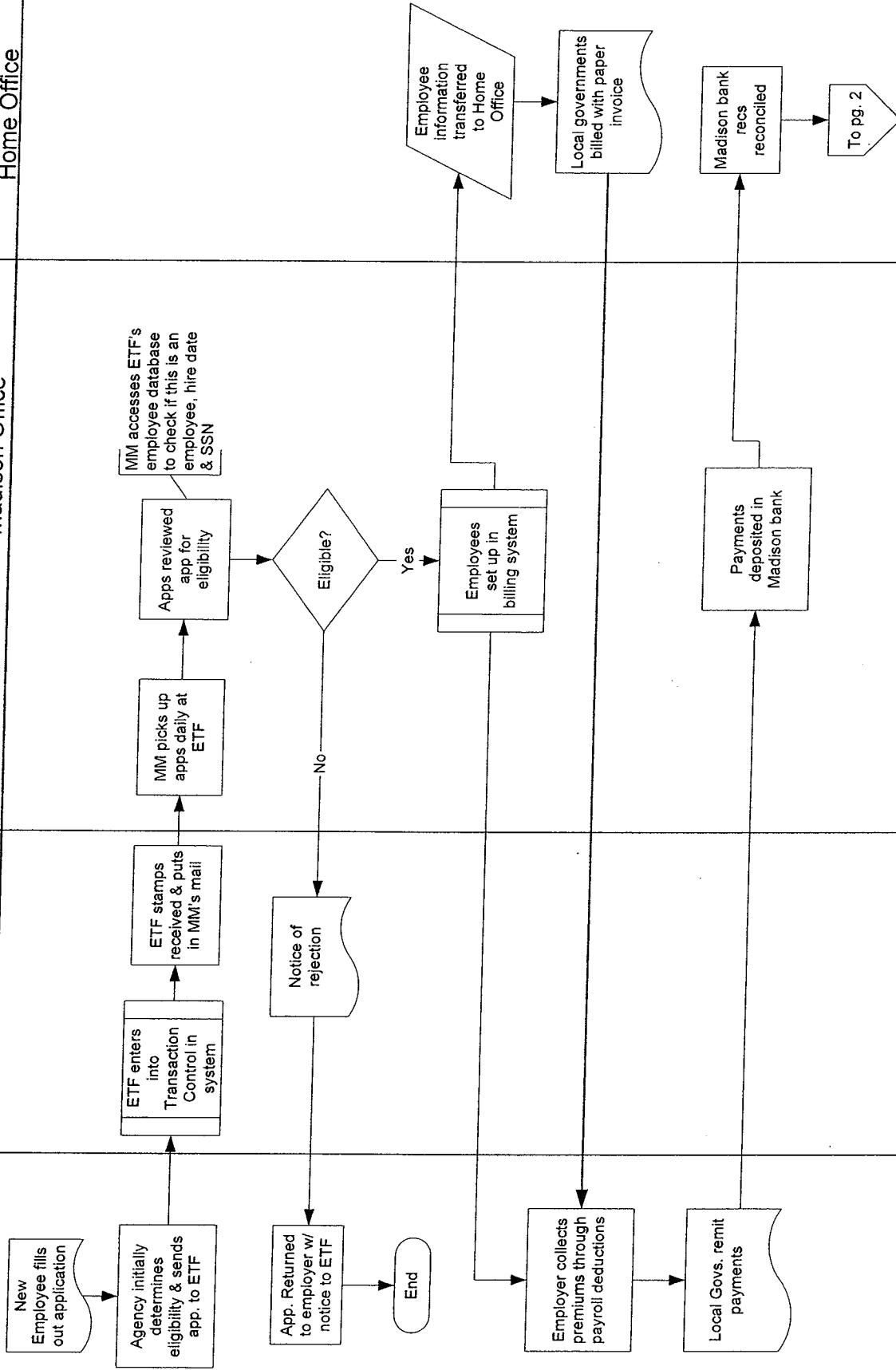
Wisconsin Department of Employee Trust Funds Group Life Insurance Program - Enrollment and Billing

Local Government/
State Agency

ETF

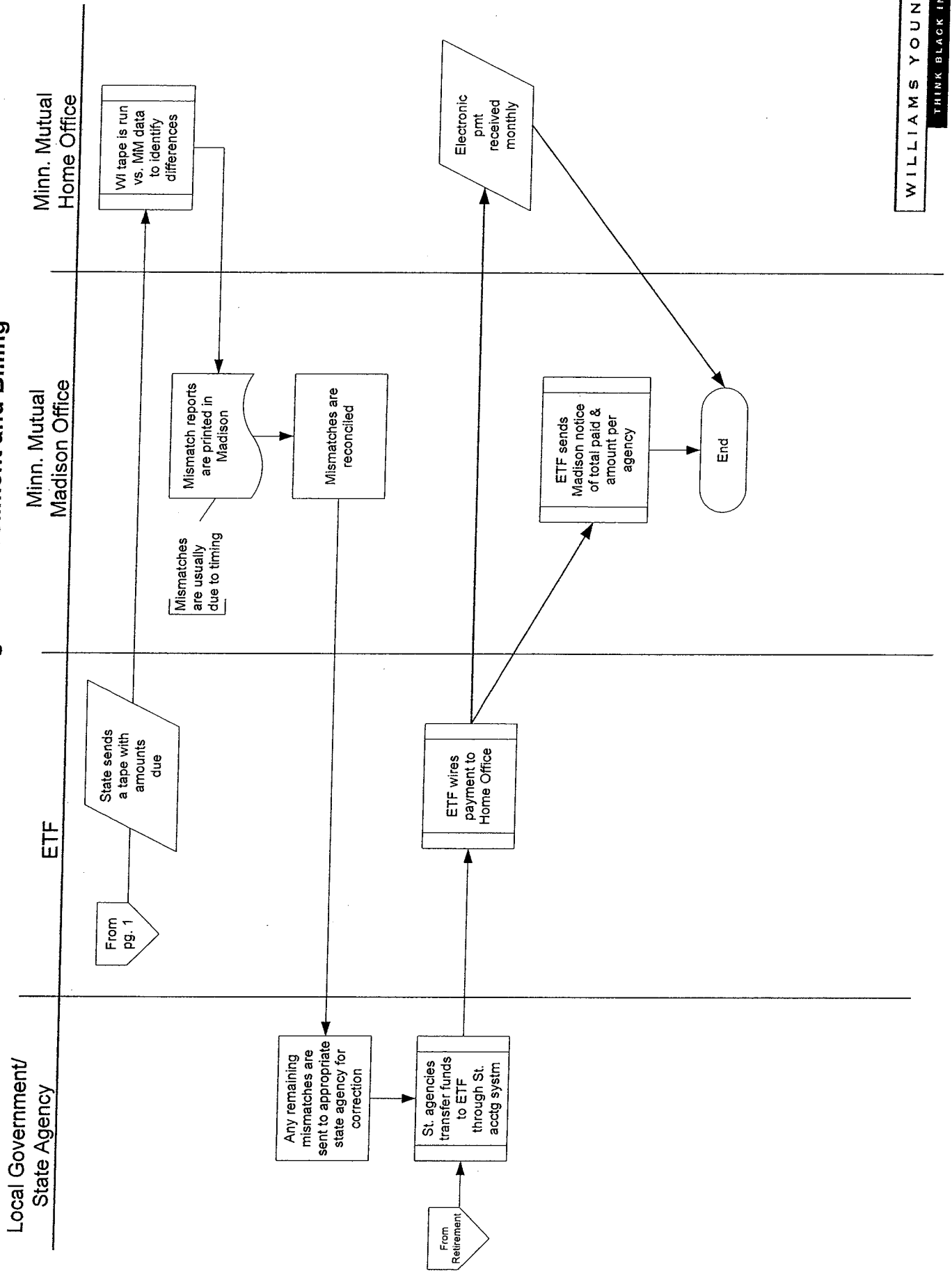
Minn. Mutual
Madison Office

Minn. Mutual
Home Office



Wisconsin Department of Employee Trust Funds Group Life Insurance Program - Enrollment and Billing

Page 2



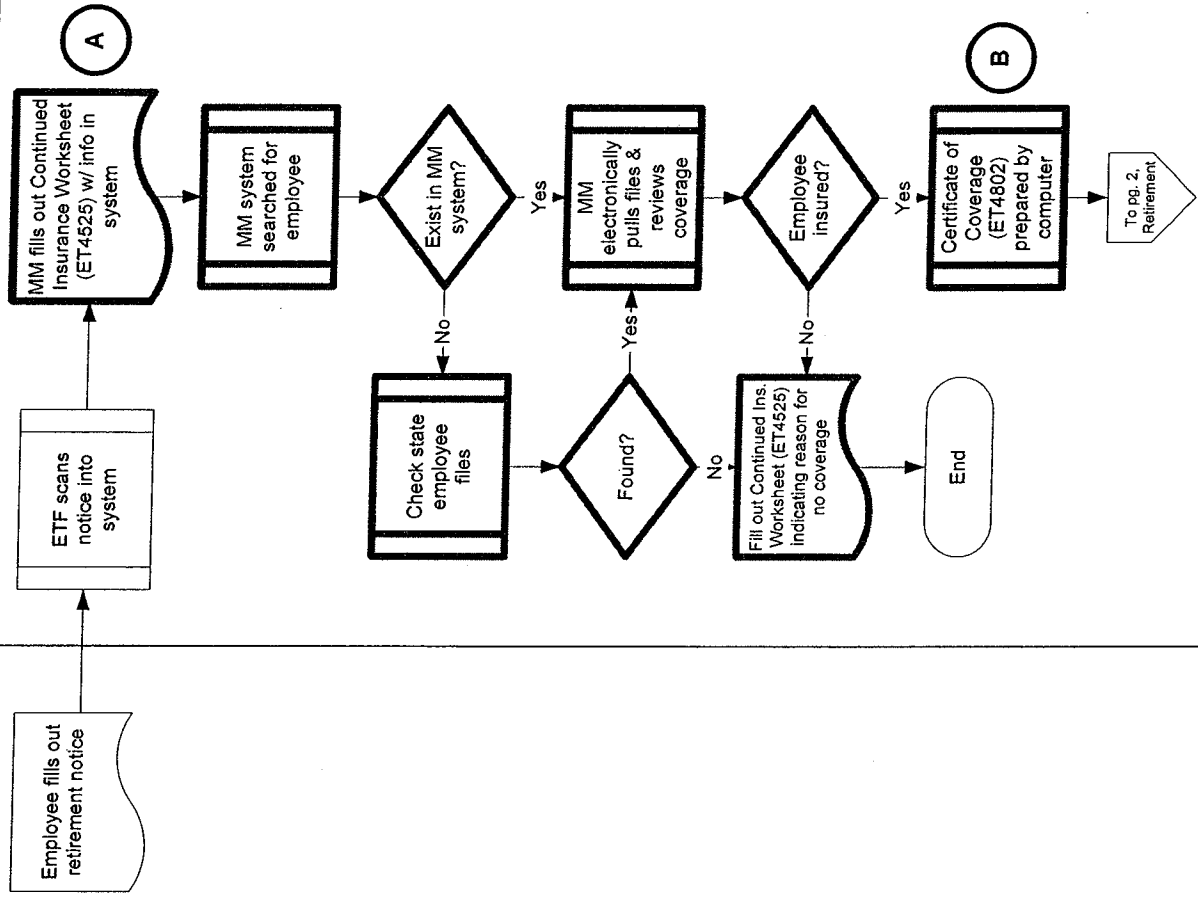
Wisconsin Department of Employee Trust Funds Group Life Insurance Program - Retirement

Local Government/
State Agency

ETF

Minn. Mutual
Madison Office

Minn. Mutual
Home Office



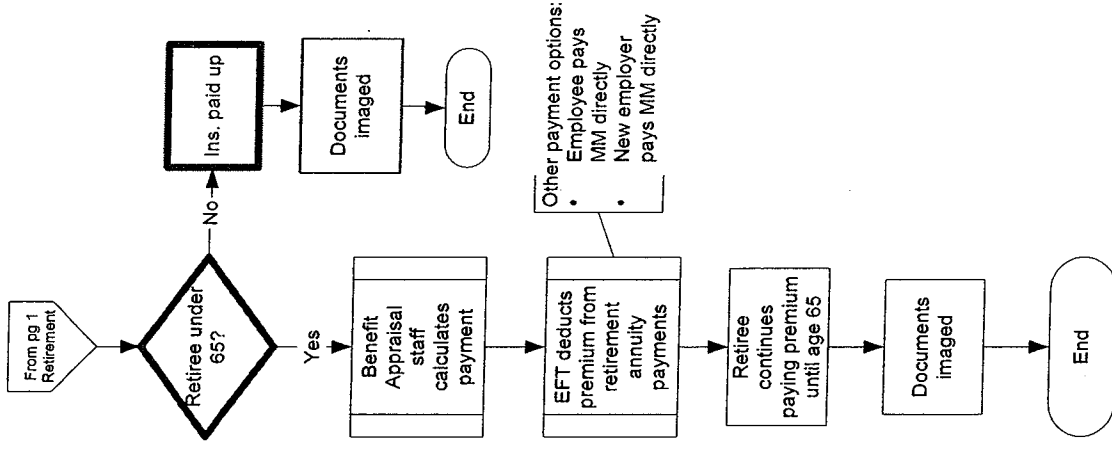
Wisconsin Department of Employee Trust Funds Group Life Insurance Program - Retirement

Local Government/
State Agency

Minn. Mutual
Madison Office

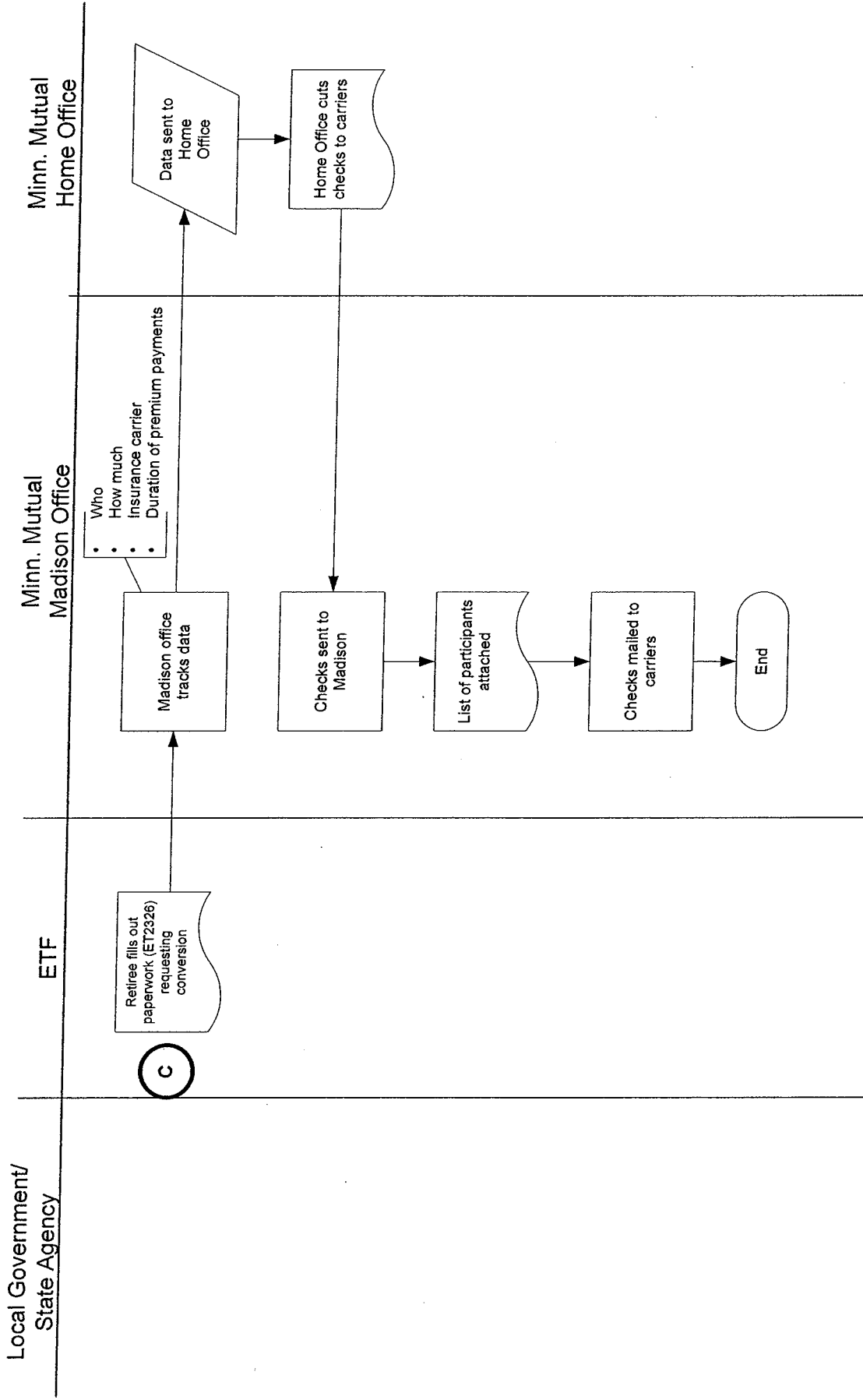
Minn. Mutual
Home Office

ETF



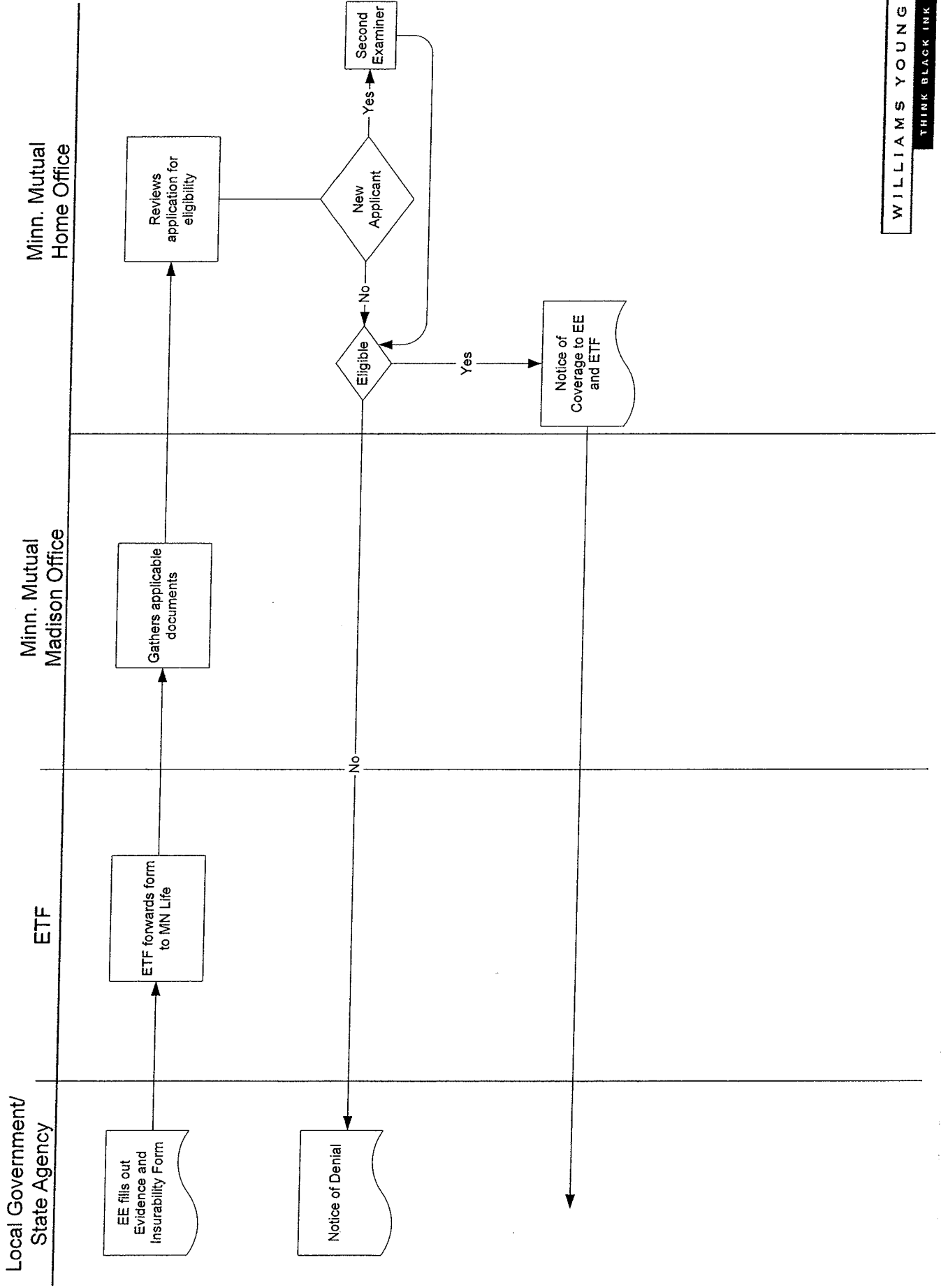
Wisconsin Department of Employee Trust Funds Group Life Insurance Program - Retirement and Death

Note: At age 66 (67 for local governments), a participant can convert the present value of a life insurance policy to pay health and long term care insurance premiums



Wisconsin Department of Employee Trust Funds Group Life Insurance Program - Disability Waiver

Appendix 2



Wisconsin Department of Employee Trust Funds Group Life Insurance Program - Death Claims

